

INVESTMENT STRATEGIES

The top 20 real estate funds of the decade

By Nathan Place

It's hard to use your own real estate as an investment. Financial advisors typically urge clients to see their homes as places to live, not something to buy and sell for profit.

Investing in real estate companies, however, is a different story. Through exchange-traded funds (ETFs), real estate investment trusts (REITs) and other assets, investors can tap into the value of apartment buildings, rental homes, offices, warehouses, trailer parks and other properties across the country.

And over time, those values tend to rise. Ten years ago, the average price of a house sold in the United States was \$324,400, according to Federal Reserve data. By the third quarter of 2023, it had risen to \$513,400 — a 58% increase.

Most important for investors, real estate is fundamentally different from other sectors, which means more diversification.

"Real estate funds are a good diversifier in a stock

portfolio," said Ed Snyder, president of Oaktree Financial Advisors in Carmel, Indiana. "Real estate funds are professionally managed and are traded on stock exchanges, which provides liquidity, as compared to non-traded REITs, which are illiquid."

But is now a good time to invest in these funds? The post-pandemic period has been a roller coaster for American real estate. House prices, for example, rose steeply from 2020 through 2022, and then suddenly plunged by almost 9% at the start of 2023.

"The past few years have been pretty volatile on a calendar year basis," Snyder said.

That's why it's important to look beyond the calendar year. Over the longer run, from 2013 to 2023, many real estate funds have paid handsome returns. According to data from Morningstar Direct, many of the top 20 funds have yielded close to 10% per year.

In the No. 1 spot is the Baron Real Estate Institutional

fund, with a 10-year annualized return of 9.33% — considerably higher than its one-year return of 6.37%. The fund invests 80% of its assets in the stocks of real estate companies, both within and outside the U.S.

In second place is Cohen & Steers Real Estate Securities A, with an annualized return of 8.38%. And the bronze winner is Cohen & Steers Institutional Realty Shares, which yielded 8.24% per year, on average. Both funds used roughly the same strategy as Baron Real Estate, and both had negative one-year returns: minus-0.21 and minus-0.14, respectively.

How did these funds, which were so disappointing in the short term, come out on top by the end of the decade? Their success is a reminder that real estate, even as an ETF or a mutual fund, is a long game.

"I think it's a good time to invest because I'm not trying to time the market but, rather, building diversified portfolios," Snyder said. "And real estate funds are part of that."

TOP 20 REAL ESTATE FUNDS

RANK	MUTUAL FUND	FUND SIZE (IN MILLIONS)	EXPENSE RATIO	1-YEAR RETURN	10-YEAR ANNUALIZED RETURN
1	Baron Real Estate Institutional (BREIX)	1570.93	1.07	6.37%	9.33%
2	Cohen & Steers Real Estate Securities A (CSEIX)	6977.04	1.1	-0.21%	8.38%
3	Cohen & Steers Instl Realty Shares (CSRIX)	5973.57	0.75	-0.14%	8.24%
4	Cohen & Steers Realty Shares L (CSRSX)	5284.92	0.88	-0.38%	8.04%
5	PIMCO Real Estate Real Return Strategy I (PRRSX)	548.81	3.13	-3.22%	7.69%
6	PGIM US Real Estate Z (PJEZX)	882.37	1.01	1.43%	7.67%
7	Principal Real Estate Securities R5 (PREPX)	5692.16	1.06	-1.01%	7.60%
8	TIAA-CREF Real Estate Sec Instl (TIREX)	2851.08	0.48	-1.64%	7.59%
9	iShares Residential & Multisector RE ETF (REZ)	588.28	0.48	-5.16%	7.59%
10	BlackRock Real Estate Securities Instl (BIREX)	276.65	0.75	-1.06%	7.51%
11	Sterling Capital Real Estate I (STMDX)	65.45	0.83	-1.52%	7.27%
12	DWS RREEF Real Estate Securities Instl (RRRRX)	1080.47	0.61	-0.23%	7.19%
13	DFA Real Estate Securities I (DFREX)	6986.27	0.18	-2.72%	7.18%
14	abrdn Realty Income & Growth Instl (AIGYX)	37.4	1	-0.12%	7.05%
15	iShares Cohen & Steers REIT ETF (ICF)	1998.2	0.33	-2.69%	7.03%
16	JHancock Real Estate Securities 1 (JIREX)	234.94	0.82	-1.73%	7.03%
17	REI Real Estate F (SIMT) (SETAX)	71.51	1.14	-0.57%	6.93%
18	Virtus Duff & Phelps Real Estate Secs A (PHRAX)	370.34	1.33	-2.53%	6.90%
19	Neuberger Berman Real Estate Tr (NBRFX)	733.33	1.37	-2.97%	6.89%
20	Manning & Napier Real Estate S (MNREX)	253.14	1.1	-1.92%	6.86%

All data is from Morningstar Direct, and is current as of Oct. 18, 2023.

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Baron Real Estate Fund's annualized returns for the Institutional Shares as of December 31, 2023: 1-year, 25.04%; 5-year, 18.32%; 10-year, 10.06%. The annual expense ratio for the Institutional Shares as of December 31, 2022 was 1.07%.

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser may reimburse certain Fund expenses pursuant to a contract expiring on August 29, 2034, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit baronfunds.com or call 1-800-99-BARON.

Risks: In addition to general market conditions, the value of the Fund will be affected by the strength of the real estate markets as well as by interest rate fluctuations, credit risk, environmental issues and economic conditions. The Fund invests in companies of all sizes, including small and medium sized companies whose securities may be thinly traded and more difficult to sell during market downturns.

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